NO. 75-1134

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IN THE

Supreme Court of the United States

OCTOBER TERM 1975

USM CORPORATION,
Petitioner,

V.

THE SCHLEGEL MANUFACTURING COMPANY,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

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THE SCHLEGEL MANUFACTURING COMPANY,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Petitioner, USM Corporation, respectfully prays that a Writ of Certiorari be granted to review the judgment of the United States Court of Appeals for the Sixth Circuit entered in this cause on September 25, 1975.

OPINIONS BELOW

The Order of the United States District Court for the Sourthern District of Ohio of December 11, 1973, is reported at 369 F. Supp. 650 and printed at *A-12 and its Findings of Fact and Conclusions of Law, and Judgment of September 4, 1974 is reported at 381 F. Supp. 649 and printed at A-16.

The Sixth Circuit Court of Appeals Decision filed September 25, 1975 is reported at 525 F. 2d 775 and printed at A-24 and its Order of November 17, 1975 denying Appellant's Motion to Amend the Court's Opinion and Petition for Rehearing with suggestion for Rehearing En Banc printed at A-44.

JURISDICTION

The Order denying Appellant's Motion to Amend the Circuit Court's Opinion and Petition for Rehearing and suggestion for Rehearing En Banc was entered on November 17, 1975. The present Petition for Certiorari was filed within 90 days of the aforesaid Order.

This Court's jurisdiction is invoked under Section 1254 of Title 28 of the United States Code.

QUESTIONS PRESENTED

(1) Whether it is contrary to the public interest delineated in Lear v. Adkins to estop a party to a consent decree from challenging the validity of a patent which monopolizes that which is in reality a part of the public domain?

(2) Whether it is contrary to public policy to interpret consent decrees and determine patent infringement in a

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*A- refers to the Appendix bound with this Petition.

manner to broaden a limited monopoly granted by the Patent Office thereby to snatch from the public domain that which is in reality in its realm?

(3) Whether it is misuse of a United States Patent to use it as a Damocles sword to exact a contractual estoppel not to contest the validity of certain foreign patents and a patent application?

(4) Whether a misuse of a U.S. patent embodied in an agreement settling litigation renders the settlement agreement unenforceable and makes the estoppel of an attendant consent decree a dead letter?

(5) Whether the District Court erred in refusing to consider excluded evidence to determine what the parties intended when they chose the language in the Consent Decree and thereby to ascertain the meaning of ambiguous language in the Consent Decree?

THE NATURE OF THE CASE

This action arises under the Patent Laws for alleged contempt by USM Corporation (hereafter "USM") of the District Court's injunction contained in a Final Judgment (By Consent) entered on February 22, 1972. The basis of the charge of contempt is an alleged infringement of United States Patent No. 3,175,256 entitled "Weather Strip" and issued to Schlegel Manufacturing Company (hereafter "Schlegel") as assignee on March 30, 1965 (hereafter "Horton patent").

THE COURSE OF PROCEEDINGS

On June 23, 1969 Schlegel filed its Complaint charging King Aluminum Corporation with infringement of Schlegel's Horton patent by reason of King Aluminum's sale of weather strip then being manufactured by The Bailey Company which subsequently became The Bailey

Division of USM. On November 11, 1971 Schlegel and USM entered into a settlement agreement (A-1), prior to conduct of discovery or trial on any of the issues. On February 22, 1972 pursuant to the settlement agreement, USM was joined as a co-defendant and on the same date a Final Judgment (By Consent) (A-8) was entered which enjoined USM:

> "From the unauthorized making or using or selling or inducing others to use pile weather stripping having a flexible impervious barrier in the pile *as represented by USM's series 892 and 893*" (emphasis added). (A-10)

Subsequently, USM completed the development of and began to sell a new and different form of weather strip which, in the opinion of USM counsel, was unlike the enjoined series 892 and 893 weather strip and did not infringe the Horton patent, nor violate the District Court's injunction. Schlegel, however, charged the new form of weather strip to be an infringement of the Horton patent and a violation of the injunction, and on May 11, 1973 Schlegel brought a Motion for Contempt. USM filed its Answer to the Motion for Contempt on January 10, 1974 in which it contended that the injunction had not been violated and that its new form of weather strip did not infringe the Horton patent.

In its Order of December 11, 1973, the District Court ruled that the prior Consent Decree barred USM from raising the issue of validity of the Horton patent at the trial of the contempt issue. The trial on Schlegel's Motion for Contempt was held on February 13 and 14, 1974.

On September 4, 1974 the District Court adopted Findings of Fact and Conclusions of Law and entered a Judgment holding that USM's new form of weather strip infringed the claims of the Horton patent and that USM had violated the Court's injunction and was in willful

contempt. At the trial on Contempt, the District Court refused to admit evidence relating to prior negotiations, the settlement agreement and a purchase agreement for the purpose of defining and delineating the meaning of the Consent Decree and what the parties intended by its ambiguous language. The District Court's Findings of Fact and Conclusions of Law further held that USM's Johnson et al Patent No. 3,745,053 was invalid even though this patent was not in issue and was relied upon by USM solely in support of its contention that its new weather strip was not merely a "colorable departure" from the previously enjoined structure.

In a per curiam decision on September 25, 1975 the Sixth Circuit Court of Appeals ruled that the District Court was correct in ruling that the doctrine of res judicata barred USM from contesting the validity of the Horton patent. The Court after making reference to the Seventh Circuit decisions in *Kraly v. National Distillers and Chemical Corp.* 502 F. 2d 1366 (7th Cir. 1974), *Ransburg Electro-Coating Corp. v. Spiller and Spiller, Inc.* 489 F. 2d 974 (7th Cir. 1973) and *Crane Co. v. Aeroquip Corp.* 504 F. 2d 1086, 1092 (7th Cir. 1974) states "We respectfully disagree with the Seventh's Circuit's interpretation of Lear". (A-31)

The Court further held that the findings of infringement by the District Court are not clearly erroneous and require affirmance of the decision on the issue of contempt in USM's manufacture of the accused device wherein the "barrier is not attached to the base" but "is spaced a short distance from the base strip". (A-27)

A dissenting opinion by Chief Judge Phillips submitted that "the record does not contain sufficient evidence from which the consent decree can be construed to have the breadth attributed to it by the District Court and by the majority opinion." (A-39)

REASONS FOR GRANTING THE WRIT

1. The Public Interest in Allowing Challenge to Patent Monopolies On Ideas Which are in Reality a Part of the Public Domain.

This Court's opinion in *Lear v. Adkins*, 395 U.S. 653 (1969) stressed "..the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.." in putting to rest the doctrine of licensee estoppel. This case represents yet another situation in which the same important public interest is thwarted.

It is clear that the only segment of the public with enough economic incentive to challenge the validity of a patent are those who desire to compete by the manufacture and sale of identical or similar products to that which the patent purports to cover. However, until such time as the potential competitor has perceived or achieved that economic incentive by some measure of success in the market place, he must of economic necessity avoid or shed the burdensome expense of defending an infringement action during that period when he may be least able to afford it. See *Lear v. Adkins*, supra..

The manufacturer who has recently assumed the role of potential competitor and is sued for patent infringement has no greater economic incentive to contest the validity of the asserted patent than the manufacturer in the same position who is merely offered a license including an estoppel provision. Why then should the former be precluded from contesting the validity of the asserted patent if he succumbs and accepts a consent decree when the licensee cannot be so estopped? The same economic incentive or desire to avoid an expensive infringement action prevails for both manufacturers. Both manufacturers represent the only public segment having potential future economic motivation to undertake the task of

freeing the public at large from the impositions of an invalid patent monopoly. USM was not offered a license and succumbed to a consent decree dictated by Schlegel. There was no discovery or trial on the issue as USM did not have sufficient economic appetite.

It is submitted that the decision below does not encourage early contests on patent validity but rather provides a vehicle whereby patent owners can foreclose any such contests by instituting litigation at a time when their competitors are least able to assume the financial burden. Indeed, such a strategy has been suggested as a post *Lear v. Adkins* vehicle to effect estoppel by a prominent attorney, now a Federal District Judge, in an article published in *les Nouvelles, Journal of the Licensing Executive Society* (June, 1973, Vol. No. 2, Page 76). The writer states:

> "Ever since *Lear*, I have been telling clients that the only way I could think of to bind the licensee would be first to sue him for infringement, then settle the suit by a consent decree that the patent is valid and infringed, and only then grant him a license under the patent."

If a patent owner is successful in exacting consent decrees barring patent validity contests from each of his potential competitors at a time when the competitors are economically unable to finance a challenge to validity, he will have sanctified his patent for the time when the competitors reach economic maturity with respect to the product.

The public interest in stripping invalid patents of their monopoly requires that a party to a consent decree including an adjudication of patent validity be free to contest validity of that patent.

2. The Decision Below Conflicts With Decisions of Other Circuits On the Res Judicata Effect of Consent Decrees.

The holding of the Court below is inconsistent with decisions of the Seventh Circuit in *Kraly v. The National Distillers and Chemical Corporation*, supra., *Crane Co. v. Aeroquip Corporation*, supra., *Butterfield v. Oculus Contact Lens Co.* 332 F. Supp. 750, 760-761; affirmed per curium 177 USPQ 33 (7th Cir. 1973) and *Business Forms Finishing Service, Inc. v. Carson* 452 F. 2d 70, 75 (7th Cir. 1971). The lower court Kraly decision, *Kraly v. National Distillers and Chemical Corporation* 319 F. Supp. 1349 (N.D. Ill. 1970) was referred to approvingly by this Court in *Blonder-Tongue Laboratories v. University of Illinois Foundation* 402 U.S. at 345, f.n. 43. See also *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F. 2d 425 (9th Cir. 1970) Cert. denied, 402 U.S. 873 (1971); *Brose v. Sears Roebuck and Company*, 455 F. 2d 763, 767-768, f.n. 7 (5th Cir. 1972). Judge Will's holding in *Butterfield v. Oculus*, supra., to the effect that the thrust of Lear also extended to a consent judgment situation since "the public interest is the paramount consideration" aptly portrays the conflict between the Circuits.

The inconsistency between the Sixth Circuit and Seventh Circuit has been brought sharply into focus by each Circuit's specific reference to the conflict. In its decision of September 4, 1974 in this case the District Court held that the lower court decisions in Kraly, Butterfield, and Crane, supra., were either not controlling or incorrect and elected to follow what it believed to be a "more representative" view of the Seventh Circuit's position in *Ransburg Electro-Plating Corp. v. Spiller and Spiller, Inc.*, supra., which it concluded "has the same basic logic thrust" as the District Courts earlier opinion in its Order of December 11, 1973 (A-23).

The Seventh Circuit had reacted to the District Court's December 11, 1973 Order in this case and expressly

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refuted its interpretation (*Kraly v. National Distillers and Chemical Corporation*, supra):

> "We cannot agree with the *Schlegel* court that *Ransburg* supports the proposition that 'once a party enters a consent decree accepting the validity of a particular patent, that party is estopped from raising the validity issue in subsequent litigation regarding the same parties and the same patent' ".
>
> The Sixth Circuit responded in this case:
>
> "We respectfully disagree with the Seventh Circuit's interpretation of *Lear*. In so holding we are in agreement with the Second Circuit, see Broadview Chemical Corp. v. Loctite Corp., 474 F. 2d 1391, 1395 (2d Cir. 1973), and the Eight Circuit, see United States ex rel. Shell Oil Co. v. Barco Corp., 430 F. 2d 998, 1001-02 (8th Cir. 1970)". (A-31)

The Seventh Circuit in *USM Corporation v. Standard Pressed Steel Co.* F 2d (188 USPQ 52) rebutted in a manner to add further confusion. Apparently overlooking *Butterfield v. Oculus Contact Lens Co.*, supra., the Seventh Circuit surprisingly opined that the res judicata effect of a consent decree adjudicating infringement as well as validity had not been considered by that Circuit.

Unless and until the public policy pronouncement of *Lear v. Adkins*, supra., is held by this Court to have equal equity and effect where a consent decree purports to estop a validity contest, the public will be required to pay tribute to patents which would be found invalid if potential contesters were unbridled from the restraint of their consent decrees. Further, the determination whether the public interest can be pursued by a challenge to validity may well depend solely on the Circuit in which the patentee has found a would be competitor at a time when the challenge is not financially feasible.

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3. The Public Interest in Confining a Limited Patent Monopoly Within the Scope of Claims Granted by the Patent Office.

The Circuit Court in this case held; *with respect to the Horton patent in suit:*

> "The Horton patent discloses a flexible weather strip which is used to seal joints between doors or windows and their surrounding frames. Flexible upstanding pile fibers are secured to a textile base strip, and an impervious barrier as secured along the center of the pile to the base strip. This barrier is described in claim 1 of the Horton patent as follows:
>
> a barrier strip of imperious, flexible sheet material fixed at one edge to said base strip in said pile gap, to project laterally from and extend longitudinally of said base strip to seal and support said fiber bodies". (A-26, 27)
>
> *and with respect to the accused device:*
>
> "However, the Johnson barrier is not attached to the base strip. It is attached to the fibers themselves and the bottom edge of the barrier is spaced a short distance from the base strip". (A-27)

Clearly, the above quoted findings indicate that the accused device does not fall within the language of the claims of the Horton patent in suit. Ergo, there can be no literal infringement of the patent in suit. The Court below nevertheless incorrectly refused to consider prior art and file wrapper estoppel arguments to establish the metes and bounds of equivalents to which the patent might be entitled, if indeed it is valid.

USM was thus precluded from a showing that the patentee had abandoned certain constructions to the

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public domain in the course of prosecution of the patent before the Patent Office. USM was also estopped from showing that the prior art necessitated a narrow interpretation of the Horton patent in suit lest the patentee be bestowed with that which was in reality a part of the public domain.

USM's accused device in this case is significantly different from the device originally held to infringe. In weighing the issue of contempt, the Court below, in essence, compared the modified accused structure to the original structure to determine if they were equivalent. The Court characterized USM's proffer of evidence of prior art and file wrapper estoppel as a collateral attack on the consent decree.

Manifestly, a potential end result of determining patent infringement according to the standard defined by the Court below is to enlarge the scope of the limited patent monopoly granted by the Patent Office. The onerousness and potential affront to the important public interest enunciated in *Lear v. Adkins* is abundantly clear when one considers that USM would be precluded by the Court below from effectively bringing prior art to the Court's attention showing the new accused device in an expired patent thereby to place it in the public domain, or from showing that the patentee abandoned the construction of the new accused device to the public by way of file wrapper estoppel. USM is thereby denied due process as it has never had its day to challenge the newly asserted scope of the patent in suit. USM is left with no recourse but to absent itself as a potential competitor if this standard of infringement is to be applied to any new, modified structure. Surely, this must contradict the public policy favoring free use of ideas not within the scope of valid patents. Certainly, the same important public interest recited in *Lear v. Adkins*, supra., must also demand freedom to challenge the broadening of a limited patent monopoly beyond its granted bounds.

Judge Phillips dissenting opinion states:

> "If the consent decree is given such a broad interpretation, the owner of the patent might receive a monopoly greater than granted by the Patent Office. This could raise a serious question of public policy." (A-39)

The only proper criteria for determining infringement is whether the accused structure infringes the valid scope of the patent claims as determined by the prior art. Determining infringement on any other basis is contra to the public interest.

4. The Decision Below Conflicts With Other Decisions Both Within and Without the Sixth Circuit.

The majority opinion cited *Field Body Manufacturing Company v. Highland Body Manufacturing Company* 13 F. 2d 626 (6th Cir. 1926) ("The question, then, is whether the modified structure is the equivalent of the original in its relation to the patent in suit"); *Wadsworth Electric Manufacturing Co. v. Westinghouse Electric and Manufacturing Co.*, 71 F. 2d 850 (6th Cir. 1934) ("We think it clear that the only issue presented by this appeal is whether the defendant's modified structures infringe the patent claims, and whether their manufacture violates the writ of injuction, and upon that issue neither the court below nor this court need consider the prior art"), and *Panduit Corp. v. Stahlin Brothers Fibre Works, Inc.*, 338 F. Supp. 1246 (W.D. Mich. 1972) aff'd., 476 F. 2d 1286 (6th Cir., 1973).

As noted in Judge Phillips' dissent in the Court below, the majority chose not to follow the more equitable approach set down in *Hirs v. Detroit Filter Corp.* 424 F. 2d 1040, 1041 (6th Cir. 1970) where the Field Body thesis is rejected and a holding of no contempt is affirmed based on traditional infringement considerations. See also *American Saint Gobain Corp. v. Armstrong Glass Co.*, 434 F. 2d 1216 (6th Cir. 1970).

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A general rule adopted in other circuits is that the accused device must always be judged with reference to the patent claims taking into consideration the prior art: *Wachs v. Balsam*, 38 F. 2d 50 (2nd Cir. 1930); *Carter Products v. Colgate-Palmolive Company*, 164 F. Supp. 503 (Md., 1958), aff'd. 269 F. 2d 299; *Marston v. J. C. Penny Co.*, 324 F. Supp. 889 (E.D. Va., 1971); aff'd. 469 F. 2d 694; *Ransburg Electro-Coating Corp. v. Ionic Electrostatic Corp.*, 395 F 2d 92 (4th Cir. 1968); *General Mfg. Corp. v. Gray*, 48 F. 2d 602 (W.D. Okla. 1931).

Thus, there exists a conflict between the Circuits on this critical issue.

5. Respondent Misused Its Patent in Suit by Using It to Exact from Petitioner An Estoppel Not to Contest Respondent's Foreign Patents and a Foreign Patent Application.

As a condition of settlement of the initial litigation defendant was required to acknowledge infringement of the Horton patent in suit and to agree to forbear from challenging the validity of the patent with respect to its series 892 and 893 weatherstrip (The Court below imposes a broader estoppel under the Consent Decree; see following section). However, as a further condition of settlement, defendant was also required to make the same concessions as to six foreign counterparts (1) of the Horton U.S. patent which were not involved in any way in this litigation. (A-4,5)

This forced recognition of plaintiff's six foreign patents not in suit has the practical effect of preventing defendant

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(1) The Japanese counterpart was not even a patent but still a pending application. This fact manifests the impropriety of Schlegel's action as USM could not possibly determine the scope and validity of a non-existent Japanese patent. Clearly, that determination could only be made after the patent was issued and a study made of the allowed claims.

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from competing with plaintiff in the relevant foreign markets either by exporting U.S. manufactured goods or by manufacturing and selling the goods abroad. This would be so even if the U.S. patent in suit were declared invalid or not infringed. Moreover, defendant would be prevented from reliance on This Court's ruling in *Deepsouth Packing Co. v. Laitram Corp.* 406 U.S. 518 under which it would have the right to export partially manufactured goods and complete the manufacturing abroad, without being in violation of plaintiff's U.S. patent.

Manifestly, the effect of the forced recognition of plaintiff's foreign patents is an illegal attempt by plaintiff to extend its U.S. patent monopoly far beyond the bounds of reason. Such conduct by plaintiff amounts to patent misuse and restraint of trade such as to render plaintiff's U.S. patent in suit unenforceable.

It is well settled by this Court that Courts should withhold their aid to a patent owner who has sought to enlarge the scope of his patent monopoly by contractual commitments exacted from licensees. *Morton Salt Company v. G. S. Suppiger Company,* 314 U.S. 488; *United States Gypsum Co. v. National Gypsum Co.,* 352 U.S. 457; *Mercoid Corporation v. Mid-Continent Investment Co.* 320 U.S. 661; *Sola Electric Co. v. Jefferson Electric Co.* 317 U.S. 173, (1942); *Edward Katzinger Co. v. Chicago Metallic Manufacturing Co.* 329 U.S. 394, (1947); *MacGregor v. Westinghouse Electric and Manufacturing Co.* 329 U.S. 402, (1947). There is no reason either in logic or in authority why this rule should not apply in the case of a non-licensee who is a party to a consent decree.

Misuse is an appropriate defense in a contempt proceeding. *Carter Products v. Colgate-Palmolive Co.,* supra; *Automated Building Components, Inc. v. Trueline Truss Co.* 318 F. Supp. 1252. It has been held also that

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there is no estoppel to contest the validity of a patent in suit where the agreement involving the patent is itself illegal. *Pope Mfg. Co. v. Gormully*, 144 U.S. 224 (1892); *Nachman Spring-Filled Corp. v. Kay Mfg. Co.* 139 F. 2d 781.

Plaintiff's misuse of the Horton patent in suit is a complete defense to the charge of contempt and warrants an order vacating the consent decree as prayed for by Petitioner in the lower court. *Berlenbach v. Anderson & Thompson Ski Co.* 329 F. 2d 782 (9th Cir. 1964), cert. den. 379 U.S. 830.

6. The District Court's Reversible Error In Refusing To Admit Evidence To Ascertain the Meaning of Ambiguous Language in the Consent Decree.

The Final Judgment (By Consent) of February 22, 1972 (A-8) refers in its opening sentence to the fact that the parties had reached a settlement and agreed to entry of the order:

> "The parties having reached a settlement without a trial of any issue of fact or law, and having agreed to the entry of the following Order as set forth in the annexed Stipulation."

The Settlement Agreement (A-3, 4) provides at Paragraphs 1 and 2:

> "1 *USM agrees that pile weatherstripping having a flexible impervious barrier in the pile, such as that now sold by USM as its series 892 and 893, comes within the scope of the claims of SCHLEGEL's U.S. Letters Patent* No. 3.175,256; its Canadian Letters Patent No. 739,211; its British Letters Patent No. 1,000,753; its West German Letters Patent No. 1,298,697; its application for Japanese Letters Patent No. 17324/69; its New Zealand

Letters Patent No. 132,303; and its Australian Letters Patent No. 255, 461; *it being understood that USM's agreement in this Paragraph shall not be used in construing the patent claims with respect to other USM weatherstripping.* (emphasis added)

2 *USM agrees that it will forebear from exercising its right to challenge the validity of SCHLEGEL's U.S. Letters Patent No.* 3,175.256; its Canadian Letters Patent No. 739,211; its British Letters Patent No. 1,000,753; its West German Letters Patent No. 1,298,697; its application for Japanese Letters Patent No. 17324/69; its New Zealand Letters Patent No. 132,303; and its Australian Letters Patent No. 255,461; *specifically when applied to pile weatherstripping having a flexible impervious barrier in the pile as represented by USM's series 892 and 893; it being understood that this forebearance shall not be considered in construing the scope of any of the claims of the above patents.*(emphasis added)

The Settlement Agreement clearly shows the intent of the parties and the true scope of the consent decree, i.e. the parties intended to and did settle only the charge of infringement by USM's series 892 and 893 weatherstrip and the concessions of infringement and validity were not to be used in construing the scope or validity of the patent with respect to future forms of USM weather strip.

A consent decree should not be expanded by a court beyond that intended by the parties. This is particularly the case where the court has overridden an important public interest in the name of judicial efficiency. See *Hamilton v. Rogers et al* 99 F. Supp. 509 (E.D. Mich., S.D. 1951); *Artvale, Inc. v. Rugley Fabrics Corp.* 303 F. 2d 283, 284 (2nd Cir. 1962); *Butler v. Denton et al* 57 F. Supp. 656 (E.D. Okla., 1944); *United States v. Armour & Co.*, 402 U.S. 673, 681-682 (1971); *L. M. Leathers Sons v. Goldman*, 252 F. 2d 188 (6th Cir. 1958); *Aurora Products*

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Corp. v. Peerless Playthings Co., Inc., 179 USPQ 146 (S.D.N.Y., 1972); *West Virginia Oil & Gas Co., Inc. v. George E. Breece Lumber Co., Inc.* 164 F. Supp. 5 (W.D. La., 1952).

CONCLUSION

Each of the issues raised by Petitioner is directed to the extent of the patent monopoly obtained through the Courts by a patentee through recourse to a consent decree by the parties and is considered to be of importance to the Patent Bar, the Judicial System and the public interest.

For all of the reasons stated, therefore, it is respectfully requested that this Court grant the present petition for a writ of certiorari to the Sixth Circuit Court of Appeals to review the decision below.

Respectfully submitted,

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